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IN THIS ISSUE:

Japan's Trade Surplus Jumps 1

More Money For Less Work:
Preliminary 1989 Shunto Results 5

Koito Decides To Dance With Boone 7

FSX Deliberations Continue 8

Japan Moves To Strengthen
Ties To Southeast Asia 10

Japan Backs CFC Ban 11

Notes: FY 1989 Budget 12

Japan's Trade Surplus Jumps

Reducing its enormous trade surplus has been one of Japan's priorities in recent years. For that reason the latest trade statistics came as bad news. Japan's overall trade imbalance rose 9.1 percent if measured in dollars in the January-March period compared to a year earlier, the third straight quarter of year-to-year increases (see Table).

Since 1985 when the American currency began dropping on foreign exchange markets, Japan's dollar-denominated imbalance has been an unreliable indicator of the changes in trade flows. But, in contrast to 1988 figures, the most recent news was just as unfavorable when the surplus was measured in other ways. The yen-denominated surplus, which more accurately measures the impact on the Japanese economy of exports and imports, generally has shown sharper quarterly declines and smaller increases in the surplus than the dollar measure. But in

the latest quarter this difference disappeared in light of the near stability of the dollar against the yen compared to year-earlier levels. The yen-denominated surplus rose 8.9 percent, nearly matching the rate of increase in the dollar-denominated surplus.

The news concerning the trade surplus with the United States was no better. In both yen and dollar terms the imbalance grew by more than 15 percent, even though imports from the United States jumped 14.4 percent in dollars and almost as much in yen.

Coupled with the two earlier quarters' results, the latest figures are evidence that progress on reducing Japan's trade surplus has stalled. A number of experts suggest, however, that the latest figures are particularly unsuitable for assessing trends. They point out that:

- With the late emperor's death and funeral during the first quarter of 1989, Japanese consumer spending was unusually subdued. As a result, imports may have suffered during the quarter but could now be poised to rebound.

- In anticipation of the new consumption tax April 1, import patterns were skewed. Some purchases were advanced to avoid the tax, others delayed to take advantage of lower rates later.

- Despite the recent run-up, oil prices still were below year-earlier levels during the January-March period, reducing the reported year-to-year increase in import levels.

These arguments suggest that the quarterly figures may have been the net result of an unusually turbulent period for Japan's foreign trade, especially on the import side. Monthly figures provide some confirmation of this hypothesis. The total volume of imports dipped 2.7 percent in February compared to a year earlier but came roaring back in March, up an incredible 23 percent over March 1988.

Despite these factors, total yen-denominated imports on a quarterly basis continued to rise faster than exports and almost as rapidly as when the surplus was declining. The difference was that export expansion accelerated as well. The much larger base against which export growth is measured resulted in a swelling of the yen-denominated surplus. Until export growth somehow is slowed, the trade imbalance is likely to grow.

Exports were much less affected by extraordinary factors than imports during the January-March quarter, yet were remarkably healthy by any measure. Export volume rose 6.7 percent in January, 5.6 percent in February and 12.2 percent in March over the year-earlier periods. The growth in yen- and dollar-denominated exports was broad-based by region, with shipments to the United States, the European Community and virtually all Asian countries showing double-digit increases over year-earlier levels in March and somewhat smaller gains in previous months.

The latest quarter's results rounded out the data for Japan's fiscal year that ended March 31. For FY 1988 the trade surplus rose 4 percent in dollar terms over FY 1987. While other broad measures of international transactions, such as the current account, may well show a decline over FY 1987, many

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	$170,114	15.8%	$136,503	8.0%	$33,611
1985	175,638	3.2	129,539	-5.1	46,099
1986	209,151	19.1	126,408	-2.4	82,743
1987	229,221	9.6	149,515	18.3	79,706
1988	264,917	15.6	187,354	25.3	77,563
1987: I	51,464	13.1	31,977	-3.1	19,487
II	56,931	7.1	36,380	15.8	20,551
III	57,855	5.6	38,346	27.2	19,509
IV	62,972	13.0	42,812	34.5	20,159
1988: I	60,279	17.1	44,505	39.2	15,774
II	65,179	14.5	47,260	29.9	17,919
III	67,169	16.1	47,258	23.2	19,911
IV	72,291	14.8	48,331	12.9	23,960
1989: I (p)	68,260	13.2	51,054	14.7	17,206

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	Y40,325	15.5%	Y32,321	7.7%	Y8,004
1985	41,956	4.0	31,085	-3.8	10,871
1986	35,290	-15.9	21,551	-30.7	13,739
1987	33,315	-5.6	21,737	0.9	11,578
1988	33,939	1.9	24,006	10.4	9,933
1987: I	7,960	-8.2	4,959	-21.7	3,002
II	8,153	-10.6	5,207	-3.6	2,946
III	8,507	-1.5	5,644	18.6	2,864
IV	8,694	-1.9	5,928	17.2	2,767
1988: I	7,713	-3.1	5,688	14.7	2,025
II	8,163	0.1	5,918	13.6	2,246
III	8,924	4.9	6,280	11.3	2,644
IV	9,139	5.1	6,121	3.3	3,018
1988: I (p)	8,709	12.9	6,504	14.3	2,205

Source: Ministry of Finance

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	$59,937	39.9%	$26,862	9.0%	$33,075
1985	65,278	8.9	25,793	-4.0	39,485
1986	80,456	23.3	29,054	12.6	51,401
1987	83,580	3.9	31,491	8.4	52,090
1988	89,634	7.2	42,037	33.5	47,597
1987: I	18,001	7.8	6,986	11.3	11,015
II	21,181	1.2	7,592	-8.6	13,589
III	21,628	1.6	8,252	9.7	13,376
IV	22,770	5.6	8,660	24.7	14,110
1988: I	19,859	10.3	10,090	44.4	9,769
II	21,610	2.0	10,458	37.8	11,152
III	23,056	6.6	10,667	29.3	12,389
IV	25,109	10.3	10,821	25.0	14,288
1989: I (p)	22,814	14.9	11,539	14.4	11,274

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	Y14,221	39.7%	Y6,364	8.7%	Y7,858
1985	15,583	9.6	6,213	-2.4	9,369
1986	13,564	-13.0	4,918	-20.9	8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1988	11,487	-5.4	5,388	17.6	6,099
1987: I	2,786	-12.7	1,083	-9.9	1,703
II	3,034	-15.5	1,086	-23.6	1,948
III	3,180	-5.2	1,215	2.1	1,965
IV	3,148	-8.2	1,198	8.5	1,950
1988: I	2,541	-8.8	1,290	19.1	1,251
II	2,706	-10.8	1,308	20.5	1,398
III	3,063	-3.6	1,418	16.7	1,645
IV	3,177	0.9	1,371	14.4	1,806
1989: I (p)	2,911	14.5	1,470	14.0	1,440

Source: Ministry of Finance

private analysts are expecting even these figures to turn upward in FY 1989. These experts are suggesting that the latest quarterly results could be a harbinger of a severe setback in Japan's efforts to rein in its trade surplus.

Douglas Ostrom

More Money For Less Work: Preliminary 1989 Shunto Results

With bargaining in most major industries completed, Japan's labor unions have won significant pay increases and reductions in working hours from employers in this year's spring wage negotiations or shunto. Approximately 12 million union members out of Japan's 45 million workers will see an average 5.1 percent gain in their monthly pay checks, well above the 4.4 percent average for 1988. The moderate increase should not lead to inflation, according to most observers.

In the past several years Japanese wages have been held down by two interrelated factors: slow economic growth and the negative effects of the yen's appreciation. Labor union leaders felt confident going into this year's shunto, however, because the situation has revolved 180 degrees. The economy's strong 5.7 percent real growth in 1988, the average 40 percent increase in last year's corporate profits and a relatively tight labor market strengthened the unions' positions in the negotiations. Trying to capitalize on these economic factors and the government's desire to spur consumer spending, labor unions demanded an average 6 percent increase in pay for fiscal 1989.

In a striking example of Japan's cooperative labor-management relations, however, unions on average have accepted well below a 6 percent raise (see Table). Management pressed for moderate wage hikes, citing the continuing erosion of Japan's international competitiveness due to the high yen. Workers in several industries, employers pointed out, already are the highest paid in the world. To inflate wages further would be detrimental to the long-term health of the economy. This argument actually is a smokescreen since initial estimates put 1988 productivity growth in the manufacturing sector 6 percentage points higher than gains in unit labor costs that year, with a somewhat narrower gap expected to persist in 1989.

Another indication of labor's highly flexible attitude is the wide spread of wage settlements among industries. Although improved from the previous year, settlements in the steel and shipbuilding industries still remain well below the average, whereas wage hikes in booming industries, such as computer software and leisure/travel services, are well above the average.

One effect of the tight labor market is to push wage increases at small and large companies in opposite directions. The clearest example is the gap between pay increases offered by large retailers (5.9 percent) versus small retailers (6.3 percent). Faced with shortages of semiskilled and unskilled workers, many smaller firms are offering greater pay incentives.

The strident negotiating demands of labor had raised fears that excessive wage gains could rekindle inflation. The moderate average settlements combined with a jump in prices at the consumer level could mean that workers actually lose ground in 1989 compared to last year. In 1988 the average pay raise was 4.4 percent, yielding a 3.7 percent real gain when the estimated FY

Mid-Term Results of the 1989 Spring Wage Negotiations

(as of April 17)

Industry	1988 (actual) Amount	1988 (actual) Change	1989 (preliminary) Amount	1989 (preliminary) Change	Monthly Wage	Average Worker Age (years)	Number of Firms
Manufacturing	Y9,168	4.08%	Y11,377	4.93%	Y231,942	35.3	805
Food	10,450	4.38	11,690	4.83	242,363	35.9	52
Textiles	10,028	4.52	11,837	5.21	227,451	36.8	55
Chemicals	11,258	4.59	13,294	5.25	252,957	36.6	62
Petroleum	10,858	4.43	12,381	5.13	240,007	30.0	6
Steel	4,625	1.93	6,348	2.60	244,791	35.3	40
Nonelectric Machinery	9,113	3.93	11,641	4.94	236,260	37.1	145
Electric Machinery	9,865	4.60	11,983	5.40	221,549	33.4	129
Shipbuilding	6,792	2.79	10,316	4.14	249,074	39.9	9
Automotive	9,081	4.14	11,590	5.10	227,314	34.9	100
Other	10,158	4.53	12,281	5.34	229,978	36.8	26
Nonmanufacturing	11,936	4.90	13,713	5.43	253,286	36.2	266
Construction	11,274	4.41	14,381	5.30	268,616	37.7	38
Commerce	10,490	4.71	12,797	5.54	231,967	34.7	30
Large Retailers	10,311	4.96	12,451	5.91	212,753	30.6	33
Small Retailers	11,942	5.58	13,575	6.26	216,591	28.7	6
Rail and Bus	11,132	4.56	13,572	5.37	252,858	39.5	43
Air Transport	13,265	4.45	13,891	4.51	322,902	28.3	9
Communications	14,162	5.72	14,183	5.46	259,417	38.1	2
Electricity	12,000	4.70	13,900	5.22	265,326	34.2	8
Gas	11,856	4.69	13,796	5.21	264,674	34.8	11
Hotel and Travel	13,727	5.41	15,620	6.07	256,163	32.7	14
Leisure	11,164	4.85	12,781	5.42	233,979	34.0	6
Consumer Credit and Leasing	8,749	5.02	9,322	5.19	179,585	27.6	1
Information and Software	11,050	5.51	13,051	6.22	208,294	28.4	7
Average	10,132	4.37	12,218	5.11	239,624	35.6	1,071

Source: Nihon Keizai Shimbun, April 21, 1989.

1988 consumer price increase of 0.7 percent is deducted. For FY 1989, however, the government expects consumer inflation to hit 2 percent, reducing the nominal 5.1 percent 1989 wage gain to just 3.1 percent in real terms. Some worry that a possible drop in real wage gains will impact consumer spending and cause domestic demand to falter.

The benefits from this year's talks were not all monetary. Many employers agreed to reduce the number of working days a year by one to three days. Honda Motor Co., Ltd., for example, cut the average work year by 24 hours to

1,956 hours. Toyota Motor Corp. added two extra days off, while Nissan Motor Co., Ltd. added only one. The government is encouraging employers to reduce working hours to an average of 1,800 by 1993 to raise the quality of life and, it hopes, to boost consumer spending.

Although most of the major industries settled wage talks by April 10, the banking, securities and life insurance sectors continue to hash out details. Given the large size of these sectors, it is possible that the final average wage increase for 1989 could be even higher than 5.1 percent.

Jon Choy

Koito Decides To Dance With Boone

The management of Koito Manufacturing Co., Ltd. announced April 19 that it was dropping objections to the purchase of 20.2 percent of the company's outstanding shares by Boone Co., an American merchant bank controlled by T. Boone Pickens Jr. When Boone first announced that it had contracted to buy into the top shareholder spot at Koito April 3, the Japanese business community was shocked (see JEI Report No. 15B, April 14, 1989). Many Japanese immediately jumped to the conclusion that Mr. Pickens' sole intent was to pressure Koito or its institutional backers (Toyota Motor Corp. owns 19 percent) to buy back the shares at an inflated price. Although this "greenmail" is not unusual in Japan, the fact that a foreigner was involved sent ripples through the Tokyo market.

Koito's management tried to delay the transfer of share ownership by claiming that Boone's application failed to indicate that Koito produced aircraft parts, thus bringing up questions of compliance with Japan's securities laws and of the impact on Japan's national security. The Ministries of Finance and International Trade and Industry both investigated. And to the surprise of Japanese and foreign observers, both agencies declined to block the sale after making some vague statements about possible violations by the company that sold the shares to the American merchant bank.

In a show of solidarity most Japanese investment analysts said that Boone had paid too high a price for the shares. The market agreed; Koito's share price fell sharply after Boone announced its acquisition. Foreign stockbrokers in Japan said that Koito's stable shareholders and other Japanese investors very possibly could act to frustrate Boone's moves by simply refusing to trade the company's stock.

Faced with government inaction, however, Koito abruptly changed its tune. In a meeting with Mr. Pickens, Koito's management accepted Boone as a friendly stable investor but demurred over granting the company's request for three seats on the board of directors. Explaining that Japanese custom leans against granting a seat to a new (if largest) investor, Koito said it would, instead, formally study the application. Since no deadline was set for completing the study, market watchers speculate that Koito will try to exhaust Mr. Pickens' patience before granting him a seat. In response to Boone's expressed desire to improve Koito's operations, Koito general manager Tamotsu Aoyama is quoted as saying Mr. Pickens "has no experience in a manufacturing industry, so we don't recognize him as a manager."

Boone is willing to wait, according to Mr. Pickens, and may even increase its stake in Koito in the interim. "We're not trying to run or take over Koito," Mr. Pickens asserts in press reports. "We see no reason why we can't work together." Mr. Pickens also says that he has received support from many Americans concerned about the apparent imbalance of access between Japanese buying into American companies and foreigners trying to buy into Japanese firms. According to press reports, many foreign firms are watching the Koito-Boone situation closely. American and European investors apparently have visited Japan recently to explore the potential for acquisitions and mergers. More specifically, Citicorp reportedly is talking with two Japanese commercial banks. With Japanese companies planning to increase their foreign investment activities in 1989, the Koito-Boone deal could mark a turning point in Japan's M&A market.

Jon Choy

FSX Deliberations Continue

Another two weeks have passed without any clear sign of progress in the bilateral dispute concerning Japan's next-generation fighter support aircraft, FSX. Informed sources contend that the United States and Japan are close to agreeing that 40 percent of FSX production will be performed by American companies. Tokyo also reportedly is more willing to assure that Japanese technological improvements will flow back to the United States. Failure to agree on these key issues, among others, has held up the transfer to Japan of General Dynamics Corp.'s F-16 fighter technology on which the FSX will be modeled.

Although officials involved in the talks will not divulge details, they suggest that additional sticking points continue to forestall a final resolution. The two governments have yet to agree on the vehicle for Japan's new commitments, that is, will they be amended to the November 1988 memorandum of understanding or attached as a side letter. In addition, Tokyo apparently has slowed the deliberative process with its questions concerning how various production work will be apportioned.

Some analysts suggest that the Recruit Co., Ltd. influence-buying affair also has weakened Tokyo's ability to formulate a coherent negotiating strategy and has exacerbated bureaucratic differences over the terms of the "modified" arrangement. However, it remains to be seen whether or not or to what extent Prime Minister Noboru Takeshita's April 24 announcement of his resignation will affect Japan's position on the MOU "clarifications" Washington is demanding (see JEI Report No. 14B, April 7, 1989). At this stage, no one is willing to speculate about when a final agreement might be reached.

In the meantime, congressional review of the FSX agreement continues. An April 18 hearing before the House Banking subcommittee on economic stabilization featured testimony from representatives of both business and labor. William Holayter, legislative director for the International Association of Machinists and Aerospace Workers, offered familiar arguments opposing the FSX accord. The deal, he said, amounts to a Japanese technology grab that ultimately will damage U.S. industry.

Mr. Holayter also underscored a theme that undoubtedly will be explored when Congress turns its attention to the U.S. defense industrial base, probably